

## CORPORATE GOVERNANCE REPORT

The Board of Directors is pleased to report to the shareholders on the corporate governance undertakings and performance of the Company for the year ended December 31, 2005. This report sets out information in respect of the Company's compliance with the Code on Corporate Governance Practices and the Code of Conduct for securities transactions by Directors and Supervisors of the Company as respectively contained in Appendix 14 and Appendix 10 to the Listing Rules, the specific undertakings and corporate governance structure of the Company, followed lastly by a summary of the Company's application of the principles in the Code on Corporate Governance Practices, which will allow shareholders to evaluate how those principles have been applied.

The Company is committed to continually achieving high standards of corporate governance and believes that sound corporate governance enhances the effective and reliable management of the Company and is essential for the Company to maximize shareholders' value.

In order to uphold a high standard of corporate governance, the Company has continued to maintain a dedicated, professional and accountable Board of Directors and an internationally recognized senior management team. Information on their backgrounds and experiences are set out on pages 11 to 17 of this annual report.

The Company's corporate governance is implemented via a structured hierarchy, which includes the Board of Directors, the supervisory committee and three committees established under the Board of Directors, namely the audit committee, the remuneration committee and the nomination committee. In addition, we have also established a number of management committees including, among others, an investment management committee, a budget committee and a risk management committee under the executive committee which is established under the Board of Directors.

The Board of Directors is collectively responsible for preparing the consolidated financial statements of the Group, which were prepared on a going concern basis, set out on pages 79 to 158 of this annual report.

### CODE ON CORPORATE GOVERNANCE PRACTICES CONTAINED IN APPENDIX 14 TO THE LISTING RULES

#### General

Throughout the period under review and save that Mr. Ma Mingzhe has occupied the positions of both the Chairman of the Board of Directors and the Chief Executive Officer of the Company, none of the Directors is aware of any information that would reasonably indicate that the Company did not meet the applicable Code Provisions set out in the Code on Corporate Governance Practices. Further details of Mr. Ma's roles and reasons for non-separation of the roles are set out below.

#### Chairman of the Board of Directors and the Chief Executive Officer of the Company

Code Provision A.2.1 of the Code on Corporate Governance Practices provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. However, as mentioned above, Mr. Ma Mingzhe has been serving as the Chairman of the Board of Directors and the Chief Executive Officer of the Company since the initial listing of the Company's H shares on the Stock Exchange on June 24, 2004.

Nevertheless, after considering the relevant principle of Code Provision A.2.1 of the Code on Corporate Governance Practices and examining the management structure of the Company, the Board is of the opinion that although the Chairman of the Board has a casting vote in the event of an equality of votes at Board meetings, Board decisions are nevertheless collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. The Board comprises of 18 Directors. Throughout the year under review, each Board meeting was attended by not less than two-thirds of all the Directors. Further, as set out in more details in the sub-section headed "The Board of Directors and Board meetings held during the year" in the section headed "The Board of Directors" below, there is a clear division of the responsibilities between the management of the Board, which is a collective decision reached by way of majority voting, and the day-to-day management of the Company's business, which relies on the support of the Company's senior management. As such, the management power of the Company is not concentrated in any one individual. Further details as to the functions reserved to the Board and those delegated to management are set out in the sub-section headed "The Board of Directors and Board meetings held during the year" under the section headed "The Board of Directors" below.

In addition, as 16 members of the Board are Non-executive Directors, the role of the Chairman of the Board who is also the Chief Executive Officer of the Company is very important as he can:

1. maintain a close communication channel between the Board and the day-to-day management;
2. ensure the Board's direction and opinion can be fully and accurately carried out by the day-to-day management; and
3. maintain a balance of power and authority between the management of the Board and the day-to-day management.

As can be seen from the management history of the Company, such management structure has proved to be able to provide the Company with efficient management and at the same time with protection of all the shareholders' rights to the greatest extents. The Company therefore does not currently intend to separate the roles of the Chairman and the Chief Executive Officer.

### **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS OF THE COMPANY**

On May 28, 2004, the Company adopted the Code of Conduct regarding securities transactions by Directors and Supervisors of the Company on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all Directors and Supervisors of the Company who have confirmed that they complied with the required standard set out in the Model Code and the Code of Conduct for the period from January 1, 2005 to December 31, 2005.

## CORPORATE GOVERNANCE REPORT

### THE BOARD OF DIRECTORS

#### The Board of Directors and Board meetings held during the year

The Board of Directors is responsible for the management of the Company and accountable to the shareholders for their entrusted assets and resources. They represent and owe a duty to act in the interests of the shareholders as a whole. The principal responsibilities of the Board of Directors and the types of decisions to be taken by the Board of Directors include, among others:

- formulating the Company's overall direction, objectives and strategies, business plans and investment proposals as well as monitoring and supervising the management's performance;
- formulating the Company's annual budgets, financial statements and monitoring the Company's performance;
- formulating the Company's profit distribution and loss recovery proposals;
- formulating plans for mergers or disposals and deciding on major investments, pledging of assets and other giving of other forms of security (in accordance with shareholders' approval);
- formulating proposals for the increase or decrease in our registered capital and the issuance of debentures;
- engaging or dismissing the chief executive officer of the Company, engaging or dismissing the secretary to the board of directors, chief operating officer, chief financial officer and members of executive committee of the Company as nominated by the chief executive officer of the Company, and determining their remuneration; and
- monitoring, evaluating and ensuring the effectiveness of the Company's internal control systems and compliance with relevant laws and regulations.

On the other hand, responsibilities and functions and types of decisions delegated to the management include, among others:

- implementation of the Company's overall direction, objectives and strategies, business plans and investment proposals as determined by the Board of Directors from time to time; and
- the day-to-day management of the Company's business.

There are currently two Executive Directors, sixteen Non-executive Directors, four of whom are Independent Non-executive Directors. The term of appointment of each of the Directors shall expire upon the conclusion of the 2006 annual general meeting of the Company. Biographies of each of them are set out on pages 11 to 13 of this annual report.

During 2005, the Board of Directors held 5 full board meetings. All such meetings were convened in accordance with the Articles of Association, attended by all of the Directors entitled to be present, and at which the Directors actively participated either in person or through electronic means of communication.

## DIRECTORS

	Board meetings attended/held	Percentage of attendance
<b>Executive Directors</b>		
MA Mingzhe (Chairman)	5/5	100%
SUN Jianyi	5/5	100%
<b>Non-executive Directors</b>		
Henry CORNELL	5/5	100%
HUANG Jianping	5/5	100%
LIU Haifeng David	5/5	100%
LIN Yu Fen	5/5	100%
CHEUNG Lee Wah	5/5	100%
Anthony Philip HOPE	5/5	100%
YIP Dicky Peter (resigned with effect from May 1, 2005)	2/2	100%
DOU Wenwei	5/5	100%
FAN Gang	5/5	100%
LIN Lijun	5/5	100%
SHI Yuxin	5/5	100%
HU Aimin	5/5	100%
CHEN Hongbo (appointed on June 23, 2005)	3/3	100%
<b>Independent Non-executive Directors</b>		
BAO Youde	5/5	100%
KWONG Che Keung Gordon	5/5	100%
CHEUNG Wing Yui	5/5	100%
CHOW Wing Kin Anthony (appointed on June 23, 2005)	3/3	100%

### Independent Non-executive Directors

Each of our Independent Non-executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules and has given to the Company his annual confirmation as to his independence. None of our Independent Non-executive Directors has any business or financial interests with the Company or its subsidiaries and they are continued to be considered by the Company to be independent. Furthermore, these individuals are precluded from assuming executive positions in the Company. Independent Non-executive Directors owe a fiduciary duty to the Company and its shareholders and, in particular, are entrusted with the responsibility of protecting the interests of minority shareholders. They serve as an important balancing factor in the policy making process of the Board of Directors and represent a crucial element of corporate governance. In addition, their broad experience in business and finance is vital to the successful development of the Company. During 2005, the Independent Non-executive Directors expressed their views and opinions at meetings of the Board of Directors in relation to a number of matters which were of concern to the shareholders and the Company as a whole.

Further, in order to further strengthen the independence of the Board of Directors, an additional Independent Non-executive Director was appointed during 2005, increasing the number of Independent Non-executive Directors from three to four, exceeding the minimum number of Independent Non-executive Directors required by the Listing Rules.

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

The Company has established an audit committee, a remuneration committee and a nomination committee. Further details of the roles, functions and the composition of each of these committees are set out below.

#### Audit Committee

The primary duties of the audit committee are to review and supervise the Company's financial reporting process, internal audit and control procedures. The audit committee is also responsible for reviewing the external auditor's appointment, the external auditor's remuneration and any matters relating to the termination of the appointment or resignation of the external auditors. In addition, the audit committee also examines the effectiveness of the Company's internal controls, which involves regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews includes finance, operations, regulatory compliance and risk management. The audit committee also reviews the Company's internal audit plan, and submits relevant reports and recommendations to the Board of Directors on a regular basis.

The audit committee comprises four Independent Non-executive Directors and one Non-executive Director, all of whom are not involved in the day-to-day management of the Company. The audit committee is chaired by an Independent Non-executive Director who also possesses the appropriate professional qualifications or accounting or related financial management expertise.

During 2005, the audit committee held four meetings. All these meetings were convened in accordance with the Articles of Association. In particular, the audit committee reviewed the Company's yearly financial statements for the year ended December 31, 2004 and the half-yearly financial results for the six months ended June 30, 2005 and was satisfied with their basis of preparation, including the appropriateness of assumptions and accounting policies and standards adopted, and made recommendations to the Board of Directors for their consideration.

Further, in order to enable the members of the committee to better evaluate the financial reporting systems and internal control procedures of the Company, they also met with the Company's qualified accountant and external auditors during the year.

The audit committee also considered and was satisfied with the performance, independence and objectivity of the Company's auditors and recommended their reappointment at the Company's 2005 annual general meeting.

During the year under review, the remuneration paid to the Company's auditors, Messrs. Ernst & Young, is set out as follows:

<b>Services rendered</b>	<b>Fees paid/payable</b> RMB'000
Audit services	10,402
Non-audit service – financial due diligence review	11,002
Non-audit service – translation and filing services	731
Non-audit service – tax advisory services	100
	22,235

## Remuneration Committee

The primary duty of the remuneration committee is to determine the specific remuneration packages of the Company's Directors and senior management, including benefits in kind, pension rights and compensation payments and advise the Board of Directors in relation to establishing a formal and transparent procedure for developing remuneration policy in respect of these individuals, and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. In particular, the remuneration committee is delegated with the specific task of ensuring that no Director or any of his associates is involved in deciding his own remuneration. Where the remuneration of a member of the remuneration committee is to be considered, that member's remuneration should be determined by the other members of the committee. Meetings of the remuneration committee are to be held at least twice a year.

The remuneration committee comprises three Independent Non-executive Directors and two Non-executive Directors, all of whom are not involved in the day-to-day management of the Company. The nomination committee is chaired by an Independent Non-executive Director.

During 2005, the remuneration committee held three meetings. As general matters, performance and remuneration packages of all Directors and senior management were reviewed and performance-based remuneration by reference to corporate goals and objectives as determined by the Board of Directors were considered. Moreover, information regarding the execution of the long term incentive plan in the year 2004 was reported to the remuneration committee. As specific matters, remuneration packages for the new incoming Directors were considered and recommendations made to the Board of Directors. The remuneration committee's terms of reference amendment proposal has been approved during the meeting of the remuneration committee in 2005.

## Nomination Committee

The primary duty of the nomination committee is to review, advise and make recommendations to the full Board of Directors regarding candidates to fill vacancies on our Board and to senior executives of deputy general manager or above. Meetings of the nomination committee are held when necessary but at least once a year.

Nominations of Directors are considered with reference to, among other things, an individual's business acumen and undertakings, academic and professional achievements and qualifications, experience, independence (where applicable), and other job engagement, having regard to the Company's activities, assets and management portfolio. The nomination committee is delegated with the task of actively considering the needs of the Company at the Directors' and senior executives' (deputy general manager or above) level, studying the criteria and procedure for selecting directors and senior executives, first considering and identifying appropriate candidates, then making recommendations to the full Board and implementing any decisions and recommendations of the Board in the execution of appointments. The aim and principal objective of the nomination committee is to ensure that there be maintained a dedicated, professional and accountable Board of Directors to serve the Company and its shareholders.

The nomination committee comprises three Independent Non-executive Directors, who are not involved in the day-to-day management of the Company and two Executive Directors. The nomination committee is chaired by an Independent Non-executive Director.

## CORPORATE GOVERNANCE REPORT

During 2005, the nomination committee held three meetings. Changes in the Board of Directors during the year were the resignation of Mr. Dicky Peter Yip as Non-executive Director and the appointment of Mr. Chen Hongbo as Non-executive Director and Mr. Chow Wing Kin Anthony as Independent Non-executive Director. Mr. Chen Hongbo and Mr. Anthony Philip HOPE were nominated as Vice-Chairman of the Board and Ms. Yang Xiuli was nominated as Vice President. Apart from the nominations of new incoming directors, the nomination committee also met to review the structure, size and composition of the Board of Directors having regard to the Company's activities, assets and management portfolio.

Written terms of reference of each of the Company's audit committee, remuneration committee and nomination committee are available on request and are also available on the Company's website at <http://www.pingan.com.cn>.

### Composition of the committees of the Board of Directors and attendance of meetings

#### Audit Committee

Members	Meetings attended/ held	Percentage of attendance
<b>Non-executive Director</b>		
Anthony Philip HOPE	4/4	100%
<b>Independent Non-executive Directors</b>		
BAO Youde	4/4	100%
KWONG Che Keung Gordon (Chairman)	4/4	100%
CHEUNG Wing Yui (appointed as a member of the committee on November 4, 2005)	0/0	
CHOW Wing Kin Anthony (appointed as a member of the committee on November 4, 2005)	0/0	

#### Remuneration Committee

Members	Meetings attended/ held	Percentage of attendance
<b>Non-executive Directors</b>		
Henry CORNELL (resigned as a member of the committee on November 4, 2005)	3/3	100%
LIU Haifeng David (resigned as a member of the committee on November 4, 2005)	3/3	100%
CHEUNG Lee Wah	3/3	100%
Anthony Philip HOPE (appointed as a member of the committee on November 4, 2005)	0/0	
<b>Independent Non-executive Directors</b>		
BAO Youde	3/3	100%
KWONG Che Keung Gordon	3/3	100%
CHEUNG Wing Yui (Chairman)	3/3	100%

*Nomination Committee*

<b>Members</b>	<b>Meetings attended/ held</b>	<b>Percentage of attendance</b>
<b>Executive Directors</b>		
MA Mingzhe	3/3	100%
SUN Jianyi	3/3	100%
<b>Independent Non-executive Directors</b>		
BAO Youde (Chairman)	3/3	100%
KWONG Che Keung Gordon (resigned as a member of the committee with effect from August 20, 2005)	2/2	100%
CHEUNG Wing Yui	3/3	100%
CHOW Wing Kin Anthony (appointed as a member of the committee on August 20, 2005)	1/1	100%

**MANAGEMENT COMMITTEES****The Executive Committee**

In addition to the three Board committees, we have also established an executive committee which is the highest execution authority under the Board of Directors. The primary duty of the executive committee is to review the Company's internal business reports, the Company's policies in relation to investment and profit distribution and the Company's management policies, development plans and resources allocation plans. The executive committee is also responsible for making management decisions in relation to matters such as material development strategies, business plans, financial systems and major promotions. In addition, the executive committee is also responsible for reviewing the business plans of the subsidiaries of the Company and to evaluate the financial performance of the subsidiaries. We have also established three special management committees under the executive committee, namely, an investment management committee, a budget committee and a risk management committee.

**The Investment Management Committee**

The investment management committee oversees the investment-related operations of our Company and monitors the investment risk and prepares the relevant internal policies. The investment management committee is also responsible for preparing the Group's investment management policy and investment strategies. The investment management committee also formulates the Group's investment risk management policy and reviews the pricing policy of new products. The investment management committee is currently composed of 13 members with the chairman being the member of the executive committee of the Company.

**The Budget Committee**

The budget committee conducts reviews of our strategic planning and the operating budgets prepared by each of our business units, formulates the development strategy, annual operating budget and business plan for the Company as well as each of our business units. In addition, the budget committee also monitors the implementation of our development strategy, annual budget and business plan. The budget committee is currently composed of 12 members with the chairman being the Chief Financial Officer of the Company.

**The Risk Management Committee**

The risk management committee is responsible for identifying and reviewing the major area of risk across the Group and all of our operating principals, and for approving, and ensuring compliance with key financial, insurance, investment and operational risk management policies. The risk management committee is currently composed of 7 members with the chairman being the Chief Operating Officer of the Company.



## CORPORATE GOVERNANCE REPORT

### THE SUPERVISORY COMMITTEE

The primary functions and powers of the supervisory committee include, among others,

- verifying financial reports and other financial information which have been prepared by the Board of Directors and which are proposed to be presented at the shareholders' meetings;
- examining the Company's financial affairs; and
- monitoring compliance of directors, the Chief Executive Officer and other members of senior management of the Company with applicable laws, administrative regulations and the Articles of Association.

There are currently nine supervisors, three of whom are independent supervisors.

### EMOLUMENT POLICY OF THE GROUP

The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals and achieving the Group's operational targets. The principle is to have clearly set incentive and performance-based remuneration which reflects market standards and is cost effective. The salary element of our employee's remuneration packages is generally determined based on their job nature and position with reference to market standards; and any bonus element is generally determined based on performance so as to highlight achievements. Apart from salary and bonuses, employees also receive certain welfare benefits. However, given the different operational models, stages of development and market standards applicable to the sectors in which our several subsidiaries and units operate, the remuneration packages may be structured differently.

In addition, the Company also has in place a long term incentive plan providing for the grant of share appreciation rights to eligible participants.

The Group's emolument policy and objectives are aimed at the long run and being consistent, but will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve the Group's operational targets.

As regards Directors, Executive Directors will receive remuneration determined according to the Group's emolument policy for rendering executive services to the Group; Independent Non-executive Directors will receive a Director's fee determined with reference to market standards in mainland and Hong Kong respectively; Non-executive Directors nominated by shareholders of the Company do not receive a Director's fee. Directors' fees are considered and recommended by the Remuneration Committee of the Board, and approved by shareholders in general meeting. Further details of Directors' remuneration are set out in note 44 to the consolidated financial statements.

## SUMMARY OF THE COMPANY'S APPLICATION OF THE PRINCIPLES IN THE CODE ON CORPORATE GOVERNANCE PRACTICES

Having already set out above the specific undertakings, corporate governance structure and endeavours of the Company for the year ended December 31, 2005, but in order to better enable shareholders to evaluate how the Company has applied the principles in the Code on Corporate Governance Practices, below is a summary table setting forth side-by-side comparison of the Code principles and the Company's application of them.

CODE PRINCIPLE	COMPANY'S APPLICATION OF CODE PRINCIPLE
<p><b>A.1 The Board</b></p> <p>An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.</p>	<p>The Company is headed by a dedicated, professional and accountable Board of Directors comprising of 18 outstanding individuals. Information on their backgrounds and experiences has been set out on pages 11 to 13 of this annual report. The Board is responsible for the overall management of the Company and the Directors are under a duty to act in the interest of the Company and the shareholders. Details of the principal responsibilities of the Board have been set out on page 44 of this annual report.</p>
<p><b>A.2 Chairman and Chief Executive Officer</b></p> <p>There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.</p>	<p>Mr. Ma Mingzhe has occupied the positions of the Chairman of the Board and the Chief Executive Officer of the Company throughout the year ended December 31, 2005. Details of Mr. Ma's roles and reasons for non-separation of the roles have been set out on pages 42 to 43 of this annual report.</p>

## CORPORATE GOVERNANCE REPORT

### CODE PRINCIPLE

### COMPANY'S APPLICATION OF CODE PRINCIPLE

#### A.3 Board composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient caliber and number for their views to carry weight.

Under rule 3.10, every board of directors of a listed issuer must include at least three independent non-executive directors. Guidelines on independence of independent non-executive directors are set out in rule 3.13.

#### A.4 Appointments, re-election and removal

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Each of the Directors, apart from being outstanding individuals with a wealth of experience in their respective fields, meets the qualifications required of a member of the senior management set by the China Insurance Regulatory Commission, the regulatory body responsible for the supervision and regulation of the PRC insurance industry.

There was one resignation from and two new appointments to the Board of Directors during the year, which transition was carried out smoothly.

Throughout the year ended December 31, 2005, the Board of Directors satisfied the requirements under the Listing Rules regarding the appointment of at least three Independent Non-executive Directors and complied with the requirement that at least one of these Directors should possess the appropriate professional qualifications or accounting or related financial management expertise. Each of our Independent Non-executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules.

The Company has established a nomination committee and a remuneration committee with written terms of reference. Details of the approach and procedure for appointment of new Directors have been set out on pages 47 to 48 of this annual report.

According to the Article 112 of the Company's Articles of Association, each Director shall be appointed with a term of 3 years and subject to retirement and re-election thereafter.

During the year, there was one resignation from the Board, which was announced in accordance with the requirements of the Listing Rules, including stating the reason for such resignation.

**CODE PRINCIPLE****COMPANY'S APPLICATION OF CODE PRINCIPLE****A.5 Responsibilities of directors**

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

The Board of Directors meets regularly and each Director is avail of the assistance of the Company Secretaries.

The same standard of care, skill and fiduciary duties are required of and expected from all Directors, Executive or Non-executive. The duties of the Directors as set out in the Company's Articles of Association are not differentiated between Executive and Non-executive Directors. Each Director fully understands and appreciates the same.

**A.6 Supply of and access to information**

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

The Articles of Association prescribes that all Directors must be given at least 14 days notice of a Board meeting, which shall include, among other things, the businesses to be considered and the agenda.

Further, at the Board meetings, each item on the agenda was discussed and considered following a briefing in detail on the relevant matter by an appropriate individual closely supervising or handling that matter. Minutes of each Board meeting were kept as a matter of proper record.

**B.1 The level and make-up of remuneration and disclosure**

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Company has established a remuneration committee with written terms of reference. Further information regarding the remuneration committee is set out on page 47 of this annual report. In particular, the remuneration committee is delegated with the specific task of ensuring that no Director or any of his associates is involved in deciding his own remuneration. It is also a specific term of reference that where the remuneration of a member of the remuneration committee is to be considered, that member's remuneration should be determined by the other members of the committee.

A description of the emolument policy and long-term incentive schemes of the Company as well as the basis of determining the emolument payable to the Directors as required by paragraph 24B of Appendix 16 to the Listing Rules have been set out on pages 50 and 153 of this annual report. In addition, annual Directors' fees and any other reimbursement or emolument payable as required by paragraph 24 of Appendix 16 to the Listing Rules have been disclosed in full on an individual and named basis on pages 151 to 153 of this annual report. The remuneration packages of all directors were considered and recommended by the remuneration committee and reviewed and approved by the general meeting.

## CORPORATE GOVERNANCE REPORT

### CODE PRINCIPLE

### COMPANY'S APPLICATION OF CODE PRINCIPLE

#### C.1 Financial reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

The annual and interim results of the Company and other financial information were published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best standards. When preparing the Company's financial reports, the Board of Directors had in mind the shareholders of the Company as the recipient and end-user and endeavoured to present such information in a comprehensible, informative and user-friendly manner.

#### C.2 Internal controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Throughout this corporate governance report, the Board of Directors seeks to set out the Company's corporate governance structure and policies, advice shareholders of the corporate governance undertakings and internal control safeguards of the Company and to demonstrate to shareholders the effectiveness and value of such practices.

#### C.3 Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Company has established an audit committee with written terms of reference. Further information regarding the audit committee is set out on page 46 of this annual report.

#### D.1 Management functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Certain responsibilities and types of decisions are reserved for the Board of Directors as set out in the Company's Articles of Association. A summary of these matters has been included on page 44 of this annual report. The Company's management is informed and educated of this separation of powers and authority and actively implements and preserves this corporate governance structure. In particular, Mr. Ma Mingzhe, being the Chairman of the Board of Directors and the Chief Executive Officer of the Company, is in a position to maintain a close communication channel between the Board and the management and to ensure that the separation of power and authority is maintained.

**CODE PRINCIPLE****COMPANY'S APPLICATION OF CODE PRINCIPLE****D.2 Board Committees**

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The Company has established an audit committee, a nomination committee and a remuneration committee with written terms of reference. Details of the roles and functions and the composition of these committees have been set out on pages 46 to 49 of this annual report.

**E.1 Effective communication**

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Apart from the information published and the announcements and circulars issued by the Company, the Company also maintains an "Investor Relations" section on its website at [www.pingan.com.cn](http://www.pingan.com.cn) where materials relating to the Company's corporate governance structure, the Company's announcements, information regarding share performance and other financial information are available to shareholders. The Company has an investor relations team which reports ultimately to the Board of Directors. The Board welcomes and values shareholders' input.

The two general meetings of the Company held during the year ended December 31, 2005 were attended by Directors at which shareholders were invited and encouraged to participate in discussions with the Directors.

**E.2 Voting by Poll**

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuer.

The procedure for demanding a poll at the Company's general meetings was set out in both circulars relating to general meetings issued by the Company during the year ended December 31, 2005.

Voting by poll, though not required by either the Listing Rules or the Company's Articles of Association, was demanded by the Chairman of the general meeting on both occasions as a matter of fairness and the results of such polling were announced in accordance with the Listing Rules.

By order of the Board of Directors

**Ma Mingzhe**

*Chairman and Chief Executive Officer*

Shenzhen, PRC

March 29, 2006

